U.S. Department of Transportation
United States Coast Guard

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COMDTNOTE 4121

MAR 10 2005

COMMANDANT NOTICE 4121 **CANCELLED**: MAR 9 2006

Subj: CH-6 TO THE COAST GUARD UNIFORM SUPPLY OPERATIONS MANUAL, COMDTINST M4121.4

1. **PURPOSE**. To provide changes to the Coast Guard Uniform Supply Operations (USO) Manual, COMDTINST M4121.4.

2. **ACTION**. Area and District Commanders, Commanders of Maintenance and Logistics Commands, Commanding Officers of headquarters units, Assistant Commandants for Directorates, Chief Counsel, and special staff offices at Headquarters shall ensure compliance with the provisions of this Notice. Internet Release Authorized.

3. **DIRECTIVES AFFECTED**. None.

4. **SUMMARY OF CHANGES**. This notice reflects policy changes to USO Manual Chapters 11, 15 and 16. The policy changes are to correct DHS Inspector General audit findings and update Coast Guard policy and procedures for review of reparables, physical inventory, management oversight and measurement. Aircraft Repair and Supply Center (ARSC) and the Engineering Logistics Center (ELC) are updating their internal procedures in accordance with these policy changes.

5. **PROCEDURES**. Remove and insert the following pages:

REMOVE	**INSERT**
Chapter 11	Chapter 11
Chapter 15	Chapter 15
Chapter 16	Chapter 16
Enclosure (2) and (3)	Vacant

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6. **ENVIRONMENTAL ASPECT AND IMPACT CONSIDERATIONS**. Environmental considerations were examined I the development of this notice and have been determined not to be applicable.

7. **FORMS/REPORTS**. Inventory Control Effectiveness (ICE) Report, RCN-4121-1 (CG-5644) is submitted quarterly in accordance with USO, Chapter 15. The form is locally reproduced at ARSC and ELC.

/s/
PAUL J. GLAHE
Acting

Encl: (1) CH-6 to Uniform Supply Operations Manual, COMDTINST M4121.4

CHAPTER 11 - REPARABLES PROGRAMS

A. Overview. Many equipment, assemblies and subassemblies are candidates for the reparable program. The repair of an unserviceable item, as an alternative to replacing it with a new one, is a method of supply support that may be an economical and an effective means of satisfying maintenance requirements. However, the fact that an item can be repaired and returned to service does not imply it is always economical or efficient to do so. The review and decision to repair an item must be based on several parameters; preventive and corrective maintenance support outlines, product availability, ERQ, operational requirements and sound economic principles. The initial determinations and level to repair a reparable candidate are normally determined before or during the initial provisioning process. However, as some items progress through their life cycle, they may meet the reparable criteria as they become obsolete and replacement is no longer available or cost effective. ICP's reparable programs address only Depot Level Repairs (DLRs) done under their cognizance.

B. Reparables Program Directives.

1. Depot Maintenance Inter-service Agreements, OPNAVINST 4790.14

2. Supply Policy and Procedures Manual, COMDTINST M4400.19(series)

C. Policy.

1. ICPs shall develop and maintain an effective DLR program with well-documented procedures. Every Coast Guard unique reparable item of support shall be considered a reparable program candidate. Technically review all reparable items at time of procurement and sample 50 long supply items at least once a year. Update the DLR program and record the date reviewed on the IM record or retain documentation showing date reviewed in item folder.

2. The candidate review process shall consider the maintenance support outline; resource requirements, material availability, production lead and/or repair turn around time, ERQ and the customers' operational readiness requirements before entering a candidate into the reparable program. Documentation to support the technical review process shall be maintained as long as the ICP manages the item.

3. The results of the reparable support determinations review shall be maintained in the Inventory Control Points automated systems from the initial reparable support determination until the item is deleted from the ICPs automated system when categorized as obsolete and disposed, or item management is transferred to another agency.

4. ICPs may enter into rotatable pool agreements with maintenance/support managers as necessary to improve supply support and reduce costs.

a. Item of supply candidates for rotatable pool management must meet all of the following criteria:

(1) Managed as a Mandatory Turn-in Reparable (MTR) item of supply,

(2) Have a average annual demand rate that it is more efficient to fill using a rotatable pool and system stock inventory than just system stock inventory alone,

(3) Be an item of supply which has several cycles of useful life, and

(4) Meet any other additional criteria unique to the rotatable pool candidate or the platform it supports.

b. The rotatable pool custodian is responsible for repairs when the supply item is in rotatable pool status.

c. Rotatable pool visibility and machinery history shall be maintained by the ICP.

CHAPTER 15. MEASUREMENT AND REPORTING REQUIREMENTS

A. **Overview**. Measurement is the process that allows an organization to determine if its processes are performing as intended. Measuring customer satisfaction and on time delivery of products and services support readiness to CG field units. As a Federal Agency we need to be an effective steward of the tax dollars we receive and we need to make fact-based decisions. Most of the factual information we need can only be gathered by measurement or metrics. The feedback we receive from measurements, or metrics, are used to improve our supply chain processes that support CG customers.

B. **Measurement and Reporting Requirements Directives**.

1. Government Performance and Results Act (GPRA), Public Law 103-62.

2. Coast Guard Logistics Doctrine, COMDTINST 4000.5 (series).

3. Coast Guard Measurement Strategy and Responsibilities, COMDTINST 5224.9 (series).

C. **Policy**.

1. ICPs shall develop and maintain a process for measuring and monitoring performance of ICP internal functions in accordance with above directives under paragraph B.

2. ICPs shall develop and provide to the ICPs program office (G-SEA or G-SEN) the Quarterly Inventory Control Effectiveness (ICE) report. Instructions for filling out the ICE Report are listed on the following pages.

3. As requested, status on supply operations shall be forwarded to Commandant (G-SEA) or (G-SEN) within 15 days of receiving the request.

4. ICPs shall fully document and support their collection methodology for figures reported on the ICE Report.

INVENTORY CONTROL EFFECTIVENESS (ICE) REPORT

A. **Category**. There are two major categories identified on the ICE report, Operational Metrics and Inventory Metrics. A performance goal has been established for most metric sub-categories. These goals are the acceptance levels for the ICPs.

B. **ICE Report Form CG-5644 (2/05) (RCN-4121-1) Preparation Instructions**. The following report heading/column instructions are provided for preparing the ICE Report.

1. Unit Name. Enter the name of the ICP reporting activity in the upper right side of report.

2. Period. Enter the applicable fiscal quarter and fiscal year (example: lst QTR FY03). Data entered in the below sub-columns reflect only activity occurring during the applicable quarter.

C. **Operational Metrics.** The following metrics are established to measure and assess the ICPs functional performance of inventory that affects customer support, asset management and readiness within a specific fiscal quarter.

1. Issue Effectiveness (Customer Requisitions): This metric calculates the percentage of requisitions accepted by the ICP and issues made by the ICP from ICP stock.

   a. Number of Requisitions. Enter the total number of requisitions accepted at the ICP.

   b. Number of Issues from Stock (Point of Entry (POE)). Enter the total number of customer issues.

   c. Issue Effectiveness Rate. To determine the percentage, divide the total number of issues by the total number of requisitions, multiply by 100, [((1.b./1.a.) x 100)]. The performance goal for the issue effectiveness rate is $\geq$ 90%.

2. Issue Denials (All Requisition Types): This metric calculates, as a percentage, the materiel release orders directed for shipment that was not shipped by the warehouse or distribution activity.

   a. Number of Issues. Enter the total number of issues. This includes all issues made within your system, i.e., customer issues, issues to disposal, issues to repair, special issues, etc.

   b. Number of Denials. Enter the total number of warehouse denials.

   c. Denial Rate (%). To determine the percentage, divide the total number of denials by the total number of issues, multiply by 100, [((2.b./2.a.) x 100)]. The performance goal for the denial rate is $\leq$ 1%.

3. Receipt Processing (Inventory receipts processed within 10 days). This metric calculates, as a percentage, the ICPs on time receipt processing performance, measured from the time material is received at the door until the on-hand balance has been adjusted to reflect as on-hand assets available for issue.

    a. Number of Receipts processed (door, accept, receipt). Enter the total number of inventory receipts processed from door date to receipt date.

    b. Number Processed On Time. Enter the total number of inventory receipts processed within 10 days from door date to asset available date.

    c. On Time Receipt Rate (%). Compute this figure by dividing the total number of inventory receipts processed on time by the total number of inventory receipts processed, multiply by 100, [((3.b./3.a.) x 100)]. The performance goal for the on time inventory receipt rate is $\geq$ 90%.

4. Frustrated Receipts. This metric calculates the average number of days frustrated receipts are resolved.

    a. Number of Frustrated Receipts. Enter the number of pending frustrated receipts. Frustrated receipts are defined as inventory receipts that cannot be readily identified to a due in.

    b. Average age of Frustrated Receipts (Days). Total number of days required to resolve frustrated receipts within the time period. Add the total number of days from frustration to resolution for each inventory receipt resolved and divide by the number of inventory receipts resolved.

5. Depot Level Mandatory Turn Ins (MTIs). MTIs are reparable inventory line items to be returned to the ICPs from customers. This metric identifies the percentage of current MTIs due-ins (less than 75 days old).

    a. Number of Due-Ins. Enter total number of MTIs due-in.

    b. Number of current Due-Ins (75 days or less). Enter the total number of MTI due-ins that are less than or equal to 75 days old.

    c. Percentage of Current Outstanding Due-Ins - Compute this figure by dividing the number of your current MTI due-ins by the total number of outstanding MTI due-ins, multiply by 100, [((5.a./5.b.) x 100)]. The performance goal for MTIs returned in 75 days or less is $\geq$ 90%.

6. Storage Location Accuracy (NSN/location). Location survey requires a physical verification, other than actual count, between physical assets and recorded location data to ensure that all assets are properly recorded. This metric calculates the actual location

accuracy rate for individual NSNs for use in assessing the performance of the storage location accuracy against the performance goal.

a. Number of NSNs/locations checked. Enter the total number of locations/NSNs checked.

b. Number of NSNs/locations without errors: Enter the number of storage NSNs/locations that did not have any discrepancies.

c. Location Accuracy Rate (%): Compute this figure by dividing the number of locations without errors by the number of locations checked, multiply by 100, [((6.b./6.a) x 100))]. The performance goal for NSN/location accuracy is ≥ 97%.

7. Valuation Accuracy (Moving Weighted Average). The weighted average is used for valuing inventory items. This metric is designed to ensure that the weighted average algorithm is correctly valuing the ICP's inventory.

a. Number of items checked. Enter the total number of receipts checked for valuation accuracy.

b. Number of items without errors. Enter the number of receipts without valuation errors.

c. Valuation Accuracy Rate (%). To determine your accuracy rate, divide the number of receipts without errors by the total number of receipts and multiply by 100 [((7.b/7.a) x 100)]. The performance goal for the valuation accuracy rate is >= 99%.

D. **Inventory Metrics.**

1. Inventory Composition. (period end). Purpose: This metric is used in reporting on financial statements the amount of item and the values of inventory.

a. Total line items. Enter the total inventory line items as of the end of this quarter.

b. Total value of inventory. Enter the total value of inventory as of the end of this quarter. This is the total quantity multiplied by the unit price.

2. Inventory Disposals. This metric identifies the value of inventory categorized and issued to disposal as excess, obsolete, or unserviceable.

a. Value of excess items issued to disposal. Enter the extended total dollar value of excess items issued to disposal. This is inventory that you are disposing of that is in excess to the ICPs needs.

b. Value of obsolete items issued to disposal. Enter the extended total dollar value of obsolete items issued to disposal. This is inventory that the ICPs are disposing of that is determined to be no longer in use, or no longer required.

c. Value of unserviceable items issued to disposal. Enter the extended total dollar value of unserviceable items issued to disposal. This would be your scrap inventory.

3. CFO Statistical Sample Inventories. Purpose: This metric calculates the inventory accuracy as required by the CFO Act.

   a. Value of Universe. Enter the total extended dollar value of inventory which is the on hand quantity multiplied by the unit price of the universe included in the statistical sample. This value also will include the total extended dollar value of managed due-ins.

   b. Number of Items in Universe. Enter the total number of inventory line items in statistical sample universe. This number should also include the number of managed due-ins.

   c. Value of Sample. Enter the total extended dollar value of inventory items sampled for the statistical sample.

   d. Number of items in Sample. Enter the total number of inventory items sampled.

   e. Number of adjustments posted. Add the number of inventory gain and inventory loss adjustments together to determine the total number of statistical sample inventory adjustments posted.

   f. Value of adjustments posted. Add gross value of inventory adjustment gains and inventory adjustment losses together to determine the total value of adjustments posted for the statistical sample inventory.

   g. CFO results (pass/fail). Indicate a pass/fail based on projected errors against 95% confidence interval.

Any exclusions and/or inclusions to the above data results shall be kept on file by the ICPs.

UNIT NAME _____
PERIOD: _____

INVENTORY CONTROL
EFFECTIVENESS REPORT

CATEGORY	Total	Goal
OPERATIONAL METRICS:		
1. Issue Effectiveness (Customer Requisitions)		
a) Number of Requisitions		
b) Number of Issues from Stock (Point of Entry (POE))		
c) Issue Effectiveness Rate (%)		**=/> 90%**
2. Issue Denials (All Requisition Types)		
a) Number of Issues		
b) Number of Denials		
c) Denial Rate (%)		**=/< 1%**
3. Receipt Processing (Inv receipts within 10 days)		
a) Number of Receipts Processed (Door, Accept ,Receipt)		
b) Number Processed on Time		
c) On Time Receipt Rate (%)		**=/> 90%**
4. Frustrated Receipts		
a) Number of Frustrated Receipts		
b) Number of Frustrated Receipts > 45 Days		
c) Average age of Frustrated Receipts (Days)		
5. Depot Level Turn In's (MTI)		
a) Number of Due In's		
b) Number of Current Due In's (75 days or less)		
c) % of Current Outstanding Due-Ins		**=/>90%**
6. Storage Location Accuracy (Based on NSN's)		
a) Number of NSNs checked		
b) Number of NSNs without errors		
c) Location Accuracy Rate (%)		**=/> 97%**
7. Valuation Accuracy		
a) Number of Items checked		
b) Number of Items without errors		
c) Valuation Accuracy Rate (%)		**=/> 99%**
INVENTORY METRICS:		
8. Inventory Composition (Period End)		
a) Total Line Items		
b) Total Value of Inventory		
9. Inventory Disposals		
a) Value of excess issued to disposal		
b) Value of obsolete issued to disposal		
c) Value of unserviceable issued to disposal		
10. CFO Statistical Sample Inventories		
a) Value of Universe		
b) Number of items in Universe		
c) Value of Sample		
d) Number of items in Sample		
e) Number of adjustments posted		
f) Value of adjustments posted		
g) CFO results (Pass/Fail)		**Pass/Fail**

U.S. DEPT OF HOMELAND SECURITY, USCG, CG 5644 (2/05)

CHAPTER 16 - PHYSICAL INVENTORY POLICY AND PROCEDURES

A. **Overview**.

1. The physical inventory control program addresses the policy, procedures, accountability and responsibilities the United States Coast Guard (USCG) Engineering Logistics Center (ELC) and the Aircraft Repair and Supply Center (AR&SC) have for maintaining:
   a. Consumable Spares - Operating Materials and Supplies (OM&S),
   b. Reparable Spares - Plant, Property and Equipment (PP&E),
   c. Inventory (Supply Fund and YARD Fund).

2. Unless otherwise specified, any reference to "inventory" in this chapter includes OM&S, PPE, and inventory.

3. The Inventory Control Points (ICPs) are responsible for material received and stored in each of their respective warehouse facilities, material on the Aviation Logistics Information System (ALMIS), and Naval and Electronics Supply Support System (NESSS). This includes care, custody, receipt, storage, issue, disposal, location survey, location reconciliation, internal controls checks, research and resolution, supply discrepancy report initiation, safety material on ALMIS and NESSS, and investigating and assessing financial liability for loss, damage, and destruction of government wholesale and retail inventory.

4. The basic physical inventory elements include:
   a. conducting physical existence and completeness inventories,
   b. performing surveys/audits/reconciliations of the inventory locations,
   c. researching inventory discrepancies and causes for adjustments, and
   d. reconciling accountability and financial record variances (e.g., physical counts).

5. Reporting procedures will be established to monitor performance measures on the effectiveness of the physical inventory control.

6. The USCG Physical Inventory Control Program complies with:
   a. The Government Management and Reform Act (GMRA), Public Law 103-356 dated Oct 94,
   b. The Government Performance and Results Act (GPRA), Public Law 103-62 dated Aug 93,
   c. The Statement of Federal Financial Accounting Standards (SFFAS) #3, "Accounting for Inventory and Related Property",

d. The Statement of Federal Financial Accounting Standards (SFFAS) #6, "Accounting for Plant, Property and Equipment", and

e. The Federal Financial Management System Requirements (FFMSR-7) Inventory Systems dated Jun 95 (includes the Chief Financial Officer (CFO) Act of 1990, and the Office of Management and Budget (OMB) Circulars A-123 and A-127).

f. Federal Financial Management Improvement Act (FFMIA) of 1996.

B. **Physical Inventory Directives.**

1. MILSTRAP Manual, DOD 4000.25-2-M

2. MILSTRIP Manual, DOD 4000.25-1-M

3. Code of Federal Regulation, 41 CFR Chapter 101

4. Storage and Materials Handling, DOD 4145.19-R-1

5. Shelf-Life Management Manual, DOD 4140.27-M

6. Property Management Manual, COMDTINST M4500.5 (series)

7. Physical Security Program, COMDTINST M5530.1 (series)

C. Policy.

1. At a minimum, ICPs shall execute a statistical sample physical inventory every fiscal quarter using a confidence level of 95% and precision level at 5%. The statistical sample software shall determine the number of items (sample size) to count.

2. At a minimum, ICPs shall execute a random completeness test (floor to record) on 30 locations every fiscal quarter.

   a. Ensure that the NIINs and their associated locations selected for the existence test are excluded from the location universe before selecting locations for the completeness test.

   b. The completeness test can be determined by:

      (1) Placing all locations for items in a file in location descending order. All 30 locations can be randomly selected using the random number generator at www.randomizer.org/form.htm, or

      (2) Randomly selecting the first location using the random number generator at www.randomizer.org/form.htm. Dividing 30 into the total number of locations to determine the remaining locations to be selected thereafter shall obtain each location (example: If the file contains 57,000 locations, select

every 1900th location after the random location is selected). If multiple items exist in a particular location, select the stock item with the highest numeric NIIN. *Note*: If multiple locations exist for the randomly selected NIIN (item), count all locations. If the selected item has also been identified for existence testing, select the next available NIIN within the stock location (NIIN descending order). If there are no available NIINs to select, go to the next location (NIIN descending order), and randomly select the next NIIN (NIIN descending order). Compare counts to stock record to determine accuracy.

3. All controlled, sensitive and pilferable items shall be inventoried annually.

4. All material stored at naval and electronic remote stock points shall be inventoried annually.

5. The ICPs shall follow the physical inventory procedures and reporting requirements prescribed below for conducting a physical inventory, reconciling, and recording. Results shall be reported in accordance with Chapter 15.

6. A random statistical sampling of locations shall be accomplished at the ICPs at least three times each fiscal year. Two of the three samples shall be conducted in the 3rd and 4th quarter. Results shall be reported in accordance with Chapter 15. Errors shall be researched and reconciled. Only one error per surveyed location is to be reported.

   a. Location surveys (NSN/location) shall be conducted in both the gaining and losing storage areas following the accomplishment of re-warehousing projects.

   b. To measure the accuracy of the results of the location surveys, errors shall be counted as one error per stock number location.

7. Inventories for items not designated for complete inventory may be accomplished as a result of:

   a. Total or partial materiel release denials,

   b. Location errors,

   c. Owner/manager request (special inventory); or

   d. Selection based on physical inventory prioritization system that considers characteristics such as recorded inventory quantity and dollar value; demand quantity, value, and frequency; proximity of anticipated replenishment action; forecast replenishment quantity and value; and period of time since last inventory.

8. ICPs shall reconcile ALMIS or NESSS physical inventory records to financial amounts. A General Ledger Trial Balance, documentation for physical inventories

and a complete stock file population (consumables and reparables) shall be kept in an "audit ready" status and on file for a minimum of 3 years from the date the inventory was completed and in accordance with National Archives requirements at each ICP. ICPs shall ensure that the physical inventory records population balances with the General Ledger Trial Balance are within an acceptable tolerance. The ICPs shall limit the incidence of inconsistent logistics and financial balances. If out-of-balance conditions occur, provisions must be made for the financial system records to be reconciled.

9. Auditors shall schedule with ICPs for observation/testing of physical inventories.

10. Preliminary physical inventory results shall be reported within five (5) business days after completion of post blind counts to the HQ program office [(G-SEA) or (G-SEN)]. The program office shall review and reply back electronically to the ICP within five (5) business days on the preliminary results and compliance with policy.

11. Physical inventories shall be completed within 30 days from start of the physical inventory, unless a written extension has been granted by Commandant (G-SLP). The ICP Commanding Officer shall sign and certify the final results of the physical inventory and forward to their Program Office within 30 days of start of inventory.

12. The HQ program office shall review the final physical inventory results and reply back electronically within 15 days to the ICPs.

13. Physical inventory results shall be reported on the Inventory Control Effectiveness (ICE) report (Chapter 15) to Commandant (G-SEN) or Commandant (G-SEA) within 30 days of end of fiscal quarter. G-SEN and G-SEA shall forward a copy of the ICE with results of their review to G-SLP.

14. If any of the minimum physical inventory performance goals are not met, the ICP will notify Commandant (G-SEN) or (G-SEA), within 45 days of sample count and identify the ICP's plans for what corrective action will be taken. The corrective action plan shall include root cause analysis and anticipated date of completion of corrective measures.

15. ICPs shall maintain documentation to support valuation of inventory.

16. Commandant (G-SEA and G-SEN) shall observe physical inventory processes and counts at ARSC and ELC at least once a year to ensure conformance to policy and procedures.

17. Commandant (G-SLP) shall observe physical inventory processes and counts at ARSC and ELC at least once a year to ensure conformance to policy and procedures.

D. Physical Inventory Procedures

1. Schedule of physical inventories. The ICPs shall:
   a. Provide Commandant (G-SEN), (G-SEA), (G-SLP) and (CG-842) the inventory schedule for the upcoming fiscal year by 30 September.
   b. Notify Commandant (G-SEN), (G-SEA), (G-SLP) and (CG-842) of any changes to the inventory schedule as soon as they are known.

2. Inventory phases. Inventories conducted by the ICPs shall include at a minimum the following phases: preparation, freeze, count, required research adjustment and reporting.

3. Inventory Preparation. Conducting, at a minimum, the following pre-inventory procedures will reduce the potential for count inaccuracies:
   a. Perform transaction clean-up,
   b. Control material movement (floor to record sampling, location checks),
   c. Monitor shipping activity,
   d. Address and account for controls of pre-counted material, (i.e., documentation placed on sealed box will include NSN, condition, 2 signatures and date),
   e. Reconcile inventory records to general ledgers,
   f. Prepare queries, and
   g. Assign Responsibility.

4. Freeze. When conducting physical inventory counts in ALMIS or NESSS the inventory records will be locked down or the inventory item frozen until the counts have been completed.

5. Count. The ICPs shall ensure the following:
   a. Count sheets for the 1st and 2nd counts do not contain the quantity or total dollar value.
   b. A minimum of two (2) persons shall be on the count team.
   c. Count sheets shall be signed and dated by all count team members.
   d. The touch method shall be used to count inventory.
   e. Criteria for determining items that shall be exposed to weighed and measure testing shall be determined by the ICPs. This method can be used for multi-pack items (e.g., bolts, nuts, etc.) or bulk Items (e.g., cable, wire, pipe, etc.). The count method for these items shall be determined from weighing or measuring. The recorder shall compare the weighted or measured count to the on hand balance. If the variance is within (+/-) 5% of the on hand quantity, the count quantity shall be recorded as the on-hand quantity.

f. Factory sealed boxes shall not be opened. The count on the outside of the box shall be accepted.

g. Pre-sealed items shall not be opened under the following conditions. These boxes shall be sealed with the documentation on the outside of the box. Documentation shall consist of the date, counters names (minimum of two), condition and quantity counted. If pre-sealed boxes do not contain this information at time of count, they must be opened and counted.

h. Minimum requirement of one (1) count. If the 1st count matches record, no other counts are required. If 1st count does not match record, a 2nd count shall be conducted. The 2nd count team shall consist of (at a minimum) two personnel, one of which was not on the 1st count team. If 2nd count is still in error, the count shall be recorded and the causative research shall begin.

i. Separation of duties shall exist for count and recording personnel.

6. Required Research**.** If the first count quantity of the existence "Record-to-floor test" matches the stock record quantity, then no other research is required. The physical inventory count of the item is considered correct. If a variance exists, then the following minimum research applies in accordance with Minimum Research Requirements for Potential or Actual Physical Inventory Adjustments listed in Figure 1 and the following paragraphs.

a. Post Count Validation. Conduct a second physical count if a variance still exists. The post count sheet will not contain the record quantity or total dollar value. If the post count quantity matches the Inventory Management (IM) stock record quantity, then no other research is required. The physical count is considered correct.

b. If the post count quantity does not match the IM stock record quantity, post to IM stock record any outstanding material receipts and issues pending in the system queue. If a receipt or issue pending in the system queue corrects the imbalance between the IM record and physical count then the physical inventory count of the item is considered correct. No other research is required. However, if a variance still exists after posting all outstanding material receipts and issues from the system queue, do the causative research.

c. Pre-Adjustment Research. Conduct a third physical count. The third count sheet may list the quantity and dollar value. If the material is found, no other research is required and the count is correct. If the material is not found, continue research in accordance with the minimum research requirements listed in Figure 1.

d. Causative Research. Review inventory history files, un-posted receipts, pending shipments, in-transit and frustrated material, and temporary and special project locations for missing items. Post inventory transactions (e.g., from receipts or issues) discovered during the research process that were previously incorrectly or not properly posted, contributing to the record imbalance. Likewise post any

previous inventory adjustments that were found missing to correct the record imbalance. If posting these transactions will correct the variance then no other research is required. If the variance still exists after review and/or research, post an inventory adjustment transaction. Record the adjustment on the ICE report under Number of Adjustments Posted.

Note: A reduction of the volume of inventory adjustments can only be achieved by conducting specified degrees of research before posting the adjustment transaction. However, in no case shall adjustments be processed against items without pre-adjustment research having been performed in accordance with Figure 1.

Figure 1: Minimum Research Requirements for Potential or Actual Physical Inventory Adjustments

Condition of Variance	**Required Research**		
Total dollar value	**Post Count Validation**	**Pre-adjustment Research**	**Causative Research**
<$500	NO	NO	NO
≥$500 but <$5000	YES	YES	NO
≥$5000	YES	YES	YES
Suspected Fraud, Waste or Abuse	YES	YES	YES

Causative research shall be conducted on all adjustments (gains and losses) of classified and sensitive items, regardless of the dollar value of the item or extended dollar value of adjustment. Causative research shall be conducted on all adjustments (gains and losses) of pilferable items with an extended dollar value > $100.

7. Adjustment. All inventory adjustments are the responsibility of the ELC and AR&SC Commanding Officer. However, the following approval authority is required

Dollar Value Adjustments per line item of OE materiel		Approval Authority
From	***To***	***Gains/Losses***
$0	$499,999	Commanding Officer or designate
$500,000	$999,999	Commandant (G-SEN), Commandant (G-SEA)
$1,000,000	OVER	Commandant (G-Sd)

Figure 2

Note:

(1) All losses of controlled inventory items must be reviewed by the commanding officer or their designated representative. Supply fund inventory is not included in figure 2.

(2) Adjustments/gains/losses for high quantity/low dollar value items (i.e., count > 100 and unit price < $50) shall not be researched or taken if the extended dollar value of the item is within 5% of the book extended dollar value. The book value shall be assumed correct.

8. Reporting. Preliminary Results: Within five (5) business days after completion of post counts, the ICP shall report electronically the preliminary results of both completeness and existence testing including variances after the post count to their HQ program office. Preliminary results of both existence and completeness tests shall include: Total line items (universe), total dollar value (universe), number of locations counted, total dollar value of items in locations counted, number of stock number items with variances after the post count, dollar value of the stock number items with variances after the post count, preliminary accuracy for both the stock number and the dollar value variances based on post count.

   a. Final Results: The ICP Commanding Officer shall certify and sign the final results of the completeness and existence testing, and complete the documentation.

   b. Report to program office (G-SEA or G-SEN) the final results after adjustments are posted (both existence and completeness tests) with a summary of errors attached. Results are to include total line items (universe), total dollar value (universe), number of locations counted, total dollar value of items in locations counted, number of items with variances, net dollar value of items with errors, final dollar value accuracy (percentage) including errors.

   c. If the inventory results are not within the 95% confidence interval, the ICP will conduct causative research of all variances and forward the following documentation associated with the discrepancies to program office (G-SEA or G-SEN). The program office shall forward a copy of the final physical inventory report with results of their review to G-SLP. In addition, they will perform root cause analysis to identify human, procedural or system errors, which adversely affect inventory accuracy and their recommended actions to improve inventory accuracy.

   d. A copy of Reconciliation worksheets and support documentation (includes screen shots, emails, receipts, issue documentation, history file back to last spot count or physical count, gain/loss doc, etc.) will be submitted to G-SEA or G-SEN for review.

9. Documentation Standards. The following documentation for statistical samples shall be forwarded to the HQ program office and be kept for three (3) years plus the current year. The documentation shall include the following:

   a. Copy of general ledger trial balance summary sheet or system query before snapping a sample count (printed at the time the statistical sample population is extracted).

   b. Comparison of universe to trial balance summary and reconciliation of differences (universe should match general ledgers within an acceptable tolerance).

   c. Data file containing exclusions (e.g., frozen assets).

   d. Copy of ICP Stat Sample procedures/checklist if changed from previous quarter (signed and dated).

   e. Confidence limits of Stratified Random Sample for the Variables Summary using Expected Values.

   f. Strata Boundaries and Size (if not viewed by representative from the program office or logistics policy office).

   g. Observed sample with mean and standard deviation calculation on the observed listing.

   h. Copy of observed variances sheet dated and signed with NIIN, record quantity, quantity in location(s), nomenclature, unit price and total dollar value after post count.

   i. Stat sample consolidated list with NIIN, location, nomenclature and unit price. Copy of stat sample count sheets, dated and signed by all team counters with NIIN, quantity, location, nomenclature and unit price.

   j. If requested, causative research (copy of adjustments, screen prints and reports, transaction analysis worksheets (signed and dated)).

   k. Confidence limits on Stratified Random Sample for Variables Summary with Adjustments.

   l. Surveys, if required w/approved signature and date.

E. **HQ Program Review**. Upon receiving the preliminary physical inventory report, the program office (G-SEA or G-SEN) shall review and reply back electronically within 5 days to the ICP the results of their review. Commandant (G-SEN or G-SEA) shall forward a copy of the preliminary physical inventory report with results of their review to Commandant (G-SLP). Upon receiving the final physical inventory report, the program office Commandant (G-SEA or G-SEN) shall review and reply back electronically within 15 days to the ICPs the results of their review. Commandant (G-SEA or G-SEN) shall forward a copy of the final physical inventory report with results of their review to Commandant (G-SLP).